

# Changes to New Zealand's regulatory environment for petroleum

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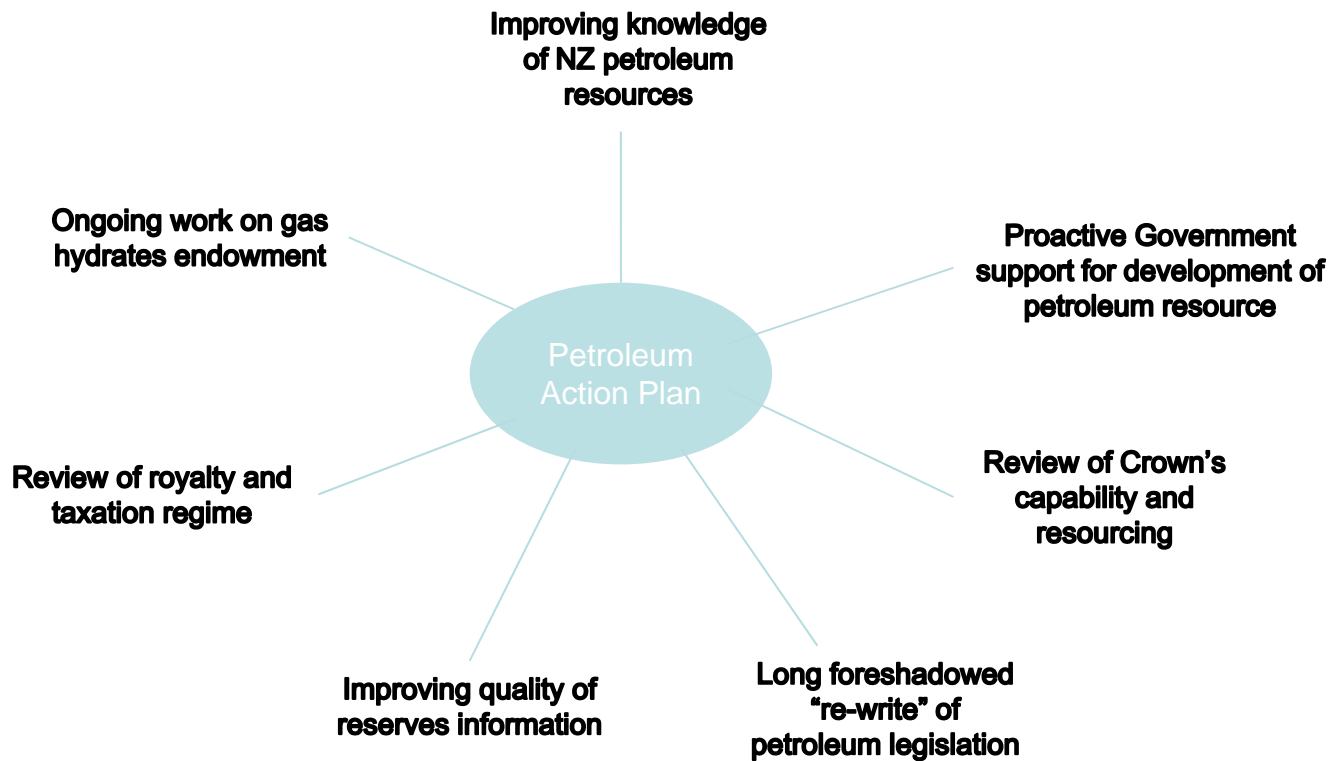
# Introduction

- Government initiatives to create the “right” regulatory environment
- Review of the Crown Minerals Act
  - assessment of likely changes to the Crown Minerals Act
  - interaction with Minerals Programme for Petroleum (2005)
  - what has not been addressed in the review
- Other key regulatory/policy issues affecting the upstream industry

# Government initiatives

- Change of Government in 2008 resulted in increased focus on development of the NZ resources sector
- 10 year ban on new gas-fired power stations removed
- Continuation of:
  - Government funded offshore seismic surveys
  - Blocks Offers for prospective offshore acreage
- Crown Minerals officials actively promoting New Zealand's petroleum industry overseas
- Review work on policy settings – McDouall Stuart and AUPEC reports (among others)

# Petroleum Action Plan (Nov 2009)



# Crown Minerals Act review

- Discussion paper released late August 2010
- First part of planned review of minerals management regime
  - second part to focus on review of Minerals Programmes and CMA regulations – expected April 2011
- Main objectives
  - encourage development of Crown mineral resources to contribute to NZ's economic development
  - make the regime better able to deal with future developments and requirements
  - streamline and simplify the existing regime

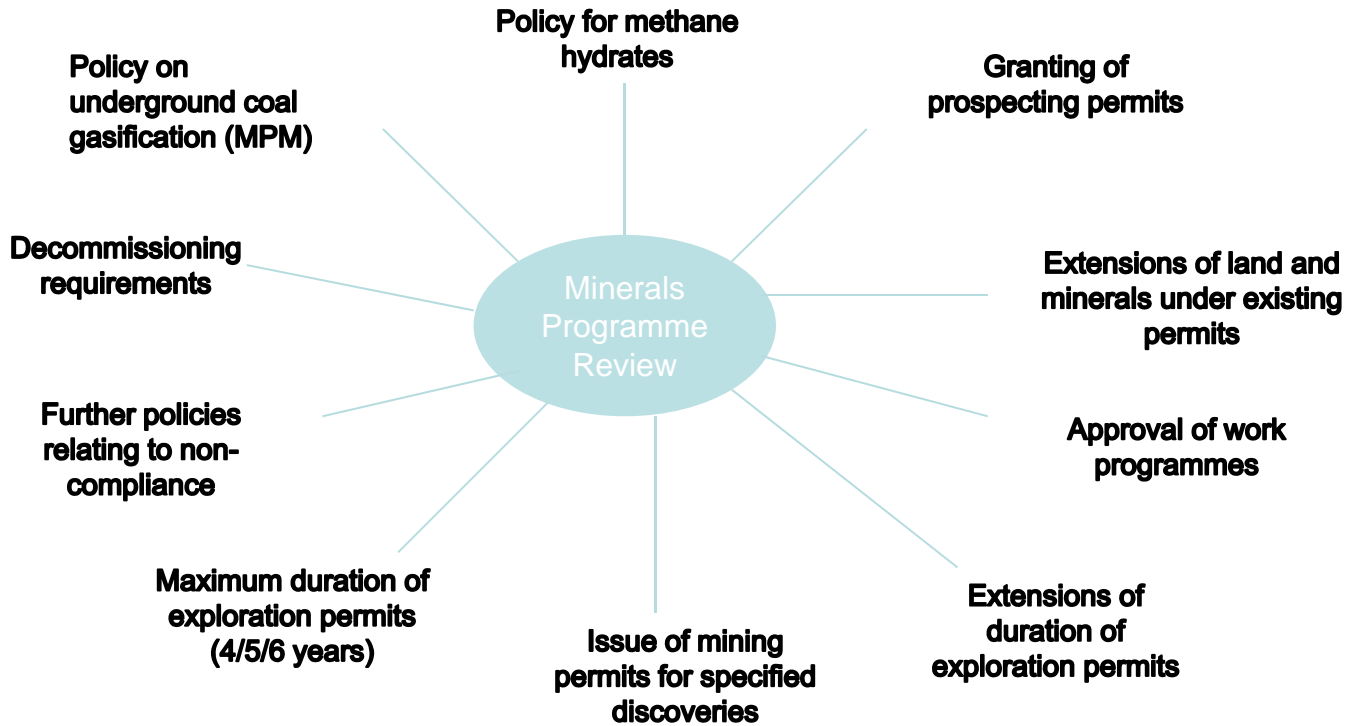
# Outside the scope of the review

- Discussion paper identifies specific areas not intended to be covered:
  - Foreshore and Seabed Act
  - Schedule 4
  - no review of extent of Crown ownership of minerals
  - carbon capture and storage
- Environmental regulation outside the 12nm limit not addressed in this review
  - separate policy work being done on this
- Approach likely reflects the recent Schedule 4 experience

# Overall assessment

- Discussion paper says not intended to fundamentally change framework for managing Crown-owned minerals
- Overall much of what is proposed is sensible...but:
  - some of the key proposals provide only a very general outline of what is proposed
  - a few of the proposals potentially undercut investment certainty and their implications will need to be carefully considered
  - also significant is what is coming under the Minerals Programme review

# Items held back for second phase review



## Section 41

- Difficulties with section 41 approvals are well known
  - delay, uncertain scope, practical difficulties
- Proposals to simplify section 41 therefore welcome
- Areas of concern or not addressed
  - clarification of scope – especially share deals/changes of control
  - why should dealings be filed if no consent is required?
  - statutory timeframe for approval of transfer?
  - de-facto pre-emptive right to other permit holders – why not just require the other permit holders to be notified?
  - apparent increased reliance on bonds
  - agreements with negative effect on royalties = void vs Crown

# Permit-related matters

- Mostly to be dealt with in Minerals Programme review
- More flexibility on the term of exploration permit terms
  - four, five or six years depending on where exploring
- Right to subsequent permits not automatic
  - potentially significant for investment certainty
- Removal of right to arbitrate work programme if Minister refuses to approve it
- Removal of ability to defer the permit commencement date if delays in obtaining consents
  - could be important if drilling outside 12 mile limit needs consent

# Compliance

- Strengthening of penalties for non-compliance
- Interest and penalties on late payment of fees/royalties
- Increased document inspection and audit rights
  - along the lines of existing tax legislation is proposed
- Royalties to be specified in regulations rather than MPP
  - extent of any changes are not clear
- Increased requirements for facilities decommissioning
  - to be supported by use of bonds
- Proposals difficult to assess as they are quite general

# Others

- Crown to have general power to reserve particular acreage from allocation
- Notification of a discovery which triggers a timeframe for surrender of acreage or a WP commitment
- Suggestion that once a discovery is made there could be appraisal, development and production permits
- Raw data filed with the Crown will be made available after 3 years

# What has not been included?

- Some additional aspects could usefully be addressed
- Strata titles
  - Crown Minerals' current view is neither the CMA nor the MPP permits the grant of separate strata permits
  - similar results can be achieved contractually but that results in liability and exposures between JVs for the different strata
- Unitisation
  - does unit agreement need to be in place before any production?
  - default unit agreement requirements set out in MPP?
  - well spacing & minimum distance to permit boundary

# Permit allocation issues

- All acreage onshore Taranaki should be open for PITs (or at least included in regular bid rounds)
- Regularly scheduled bid rounds (at least annually)
  - bid rounds schedule should be well publicised
  - all reserved acreage should be included in next bid round unless special circumstances exist
- No five-day competitive allocation rule for PITs
  - no public notification of PIT applications until granted
  - Crown assessment process can address non-commercial bids
- Cooling off period for surrendered/expired acreage
  - acreage not open again until all data lodged

# Others for consideration

- Minimum work obligations less prescriptive
  - flexibility as knowledge progresses (esp offshore)
- Introduction of retention leases
- Statutory provisions allowing extension of permit duration in special circumstances
- Retain blanket requirement to relinquish 50% of an exploration permit upon applying for a second term
- Practice notes – required?

# Other current policy initiatives

- Significant amount of regulatory change
- New EEZ legislation (expected 2011)
  - increase protection of EEZ by regulating certain activities
  - consenting regime to be established (permitted, discretionary and prohibited activities)
  - increased ability for third parties to influence?
- Establishment of EPA (expected to regulate EEZ activities)
- Government reviewing offshore HSE requirements against international best practice

## Other current policy initiatives cont.

- MAF Biosecurity - draft Import Health Standard requiring “clean” vessels
- Maritime NZ:
  - work on decommissioning offshore facilities
  - review of marine oil spill response capability
- Department of Conservation:
  - marine mammal sanctuary regulations
  - review of seismic survey guidelines (to become mandatory?)
  - establishment of new marine reserves (note these will effectively be closed to exploration/mining under Schedule 4 changes)
- Need for co-ordination between Government agencies

# Questions

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